

**In The Matter Of:**

***AHERF v.  
PRICEWATERHOUSECOOPERS, L.L.P.***

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***W. BRUCE THOMAS  
September 16, 2003***

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**THOMAS, W. BRUCE**



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- 1 I've seen. I wanted to make sure it was  
 2 consistent with your recollection, that you've  
 3 left all of your AHERF boards or active service  
 4 toward the end of the year '97 or the beginning  
 5 of the calendar year '98?
- 6 A. That's right, yeah.
- 7 Q. I think if that is, in fact, the case, you were  
 8 not a board member and actively involved in  
 9 AHERF matters at the time Mr. Abdelhak was  
 10 discharged; is that accurate?
- 11 A. That's correct.
- 12 Q. Did you have any input or were you asked any  
 13 questions or have any conversations with anyone  
 14 about that at the time?
- 15 A. Oh, when I'd see Bill Snyder or Bob Hernandez,  
 16 who sort of took my place there, I'd ask them  
 17 what was going on. I never got much out of  
 18 them. I think they were concerned to not talk  
 19 about the subject themselves. I think if I  
 20 tried to talk to anybody, I didn't find out  
 21 anything.
- 22 Q. You didn't have any --
- 23 A. I found out more from Pamela Gainor than  
 24 anybody else.
- 25 Q. She's a journalist?

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- 1 A. Yeah, right.
- 2 Q. You didn't have any formal input; is that  
 3 accurate?
- 4 A. Pardon me?
- 5 Q. You didn't have any formal input into the  
 6 determination to remove Mr. Abdelhak?
- 7 A. Oh, no, no, I read about it in the paper.
- 8 Q. Do you recall anything you learned from  
 9 Mr. Hernandez or others?
- 10 A. Any what?
- 11 Q. Anything that you learned from Mr. Hernandez or  
 12 others about the topic --
- 13 A. No, and I think he probably had been told not  
 14 to discuss it is my guess because we had been  
 15 friends for years.
- 16 Q. And I take it then that you were also not a  
 17 part of any formal conversations or meetings at  
 18 which the discharge of Mr. McConnell, the chief  
 19 financial officer of AHERF --
- 20 A. That's correct.
- 21 Q. -- was discussed; is that right?
- 22 A. That's correct.
- 23 Q. And I take it that also that you were not a  
 24 part of any board deliberations or decision  
 25 that led to the discharge of Coopers & Lybrand,

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- 1 then PriceWaterhouseCoopers, as the auditors  
 2 for AHERF; right?
- 3 A. That's right. As a matter of fact, I didn't  
 4 even realize that it happened, until you just  
 5 told me.
- 6 MR. McDONOUGH: Well, and I'm going  
 7 to object to the form, using the word  
 8 "discharge," but go ahead.
- 9 Q. I'm not sure I heard your testimony earlier  
 10 today about whether Coopers & Lybrand, while  
 11 you were a member of the audit committee, ever  
 12 took the audit committee up on its offer of  
 13 executive session.
- 14 Do you recall whether that ever  
 15 happened?
- 16 A. I don't remember that they did. It would not  
 17 have surprised me if they did. I'm wondering  
 18 if, and I wondered then, if we might have asked  
 19 them to stay afterwards and meet with us. I  
 20 seem to have some recollection of that. There  
 21 may have been something we wanted to discuss  
 22 with them, and we wanted to have the -- anyone  
 23 from the hospital involved, and I have a vague  
 24 recollection that we did that but --
- 25 Q. Do you recall the topic?

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- 1 A. No, I don't.
- 2 Q. Do you recall the outcome of the discussions?
- 3 A. No.
- 4 Q. Do you recall when you might have had that --
- 5 A. It may never have happened.
- 6 Q. -- event? So you don't recall when?
- 7 A. No.
- 8 Q. In your experience at AHERF on the audit  
 9 committee and as a member of the board,  
 10 Mr. Thomas, what did you see as the Coopers &  
 11 Lybrand's role with respect to the review and  
 12 presentation of the financial statements every  
 13 year?
- 14 MR. McDONOUGH: Object to form.
- 15 A. That was the principal thing that they did was  
 16 review, and that's typically the principal  
 17 thing that an outside accounting firm does. If  
 18 you have an internal audit group, they -- they  
 19 do the operational type audit, you know,  
 20 looking for defalcations, that sort of thing.  
 21 They do that sort of thing, and they did  
 22 have -- when I first went on the board, it  
 23 didn't have an internal audit, but we had one  
 24 established. I was instrumental in getting  
 25 that going.

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1 Q. An internal audit function?  
 2 A. Yeah, and they did -- they had a good one. It  
 3 was run by a woman, Diane Schrecengost, who was  
 4 quite good, and --

5 THE REPORTER: I'm sorry, you said  
 6 run by a woman?

7 MR. JONES: Diane Schrecengost.  
 8 A. Diane Schrecengost, I'll take a shot at it,  
 9 S-c-h-r-e-c-e-n-g-o-s-t I think, something like  
 10 that. What were we --

11 Q. I was asking you the role of the outside  
 12 auditors, Coopers & Lybrand, what did you see  
 13 their role?

14 A. I don't believe that they were ever retained  
 15 for any consulting or any of that activity.  
 16 They just did the conventional balance sheet  
 17 and profit and loss statement audits,  
 18 certifying of the books and so forth. I can't  
 19 think of -- I'm quite sure we never asked them  
 20 to do anything beyond the normal CPA  
 21 activities.

22 Q. And what did you see as a member of the audit  
 23 committee and the board at AHERF as the  
 24 importance or the significance of the auditor's  
 25 report every year on the financial statements?

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1 year?

2 A. Pardon me?

3 Q. Did you indeed then review the audited  
 4 financial statements when they came out every  
 5 year?

6 A. Yes.

7 Q. And you reviewed also the management letter  
 8 that would come out roughly at the same time  
 9 every year?

10 A. That's correct.

11 Q. And what did you see the role of the  
 12 management -- as the role of the management  
 13 letter that Coopers & Lybrand would provide?  
 14 A. Assuring that they had followed the appropriate  
 15 procedures and that they have found nothing  
 16 that they needed to bring to the attention of  
 17 management, that they found nothing that needed  
 18 correction and so forth. They had pretty good  
 19 records at Allegheny.

20 When -- when things that were done  
 21 that were improper, using the trust funds and  
 22 so forth, when that came about, I was gone for  
 23 several years, so I don't -- I don't know  
 24 anything about the presentation of the  
 25 statements at that time, but I thought they

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1 A. Well, it told you the financial health of the  
 2 institution, relied on that, the operating  
 3 financial results and the balance sheet results  
 4 and the fact that the trustee funds were intact  
 5 and had not been invaded, that sort of thing.

6 Q. And --

7 A. We used to have a pretty thorough discussion of  
 8 the financial statements at the audit committee  
 9 meeting and then again at the board meeting  
 10 following -- the next board meeting that  
 11 followed the audit committee meeting.

12 Q. And how did you use the financial statements  
 13 yourself in your work as a board member?

14 A. Basically to see how the organization --  
 15 Q. The audited financial statements?

16 A. Yeah, how the organization was doing  
 17 financially, and fortunately for many years it  
 18 was a very happy story. You know, until these  
 19 problems that we were discussing earlier today  
 20 came up, they had substantial surplus, cash  
 21 surplus, operating surplus every year. So it  
 22 was kind of, you know, an easy thing to deal  
 23 with.

24 Q. Did you indeed then review the audited  
 25 financial statements when they came out every

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1 were good, very good. Lybrand, Coopers &  
 2 Lybrand were I think the biggest firm  
 3 specializing in hospital work in the country,  
 4 and so they had people that knew that business  
 5 very well and very capable.

6 Q. And you learned that from what source?

7 A. Pardon me?

8 Q. And you learned that from what source?

9 A. Literature.

10 Q. Did Coopers & Lybrand share that with you as  
 11 well?

12 A. Yeah, uh-huh.

13 Q. When you offered executive session to the  
 14 auditors in your meetings, why is it that you  
 15 do that or did that?

16 A. You -- I did it because that's what we did at  
 17 US Steel. We had I thought a very good audit  
 18 committee, US Steel. US Steel had one of the  
 19 first ones that were in effect in the country  
 20 way back in the '50s or '60s, and because we  
 21 had formed an audit committee while I was there  
 22 and I was the first chairman, we pretty well  
 23 used the US Steel system, but I think that's  
 24 pretty much runs through the whole country.

25 You want to be able to have a given

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1 group, whether it's the internal auditors just  
 2 sit with you and have some frank discussions  
 3 with them and as you are hoping -- or you are  
 4 not hoping, but you do it because there may be  
 5 something that they don't want to say with the  
 6 chief financial officer or the CEO sitting  
 7 there, and the same way with the accounting  
 8 firm, the outside accountants, and the same way  
 9 with the management.

10 And as I say, the only ones I  
 11 remember who ever took us up was the management  
 12 on a couple of things that were so early in  
 13 development that they didn't want them rooted  
 14 about, and I guess internal audit would stay in  
 15 on those normally, but it was a healthy thing  
 16 to do, and I insisted that they put that in the  
 17 record every time, that we had made that offer.

18 And also about once or twice a year I  
 19 would tell the internal audit people, the  
 20 outside auditors and also the management  
 21 people, that anybody who wanted to talk to the  
 22 committee or to me privately was perfectly free  
 23 to do so, and when we had the organization  
 24 chart, we showed a line going from the internal  
 25 audit and the chief financial officer and so

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1 forth coming up to the audit committee outside  
 2 of their normal administrative reporting, and  
 3 encouraged them if they ever had something they  
 4 wanted to talk about, come and see me. Nobody  
 5 ever did.

6 Q. Did you since -- let me start that again.

7 Did you ever question the integrity  
 8 or competence of Mr. Abdelhak while you were a  
 9 member of the board, either the audit committee  
 10 or the board itself?

11 A. No, I didn't. I think I said this, that I had  
 12 some concerns later on, after this plan was in  
 13 place and everything else, that he never was  
 14 unable to answer a question. He always knew  
 15 the answer to every question, and I don't think  
 16 there's anybody like that, and so that made  
 17 me a little uneasy, but that was after all  
 18 these policies had been adopted and we were  
 19 into this business.

20 Q. Do you recall when that question or concern  
 21 came up in your mind?

22 A. Probably would have been not too long before I  
 23 left the board. I thought back, and I thought,  
 24 geez, you know, he was never at a loss to come  
 25 up with persuasive and documented things right

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1 out of his head.

2 Q. Did you ever have a question yourself about the  
 3 competence or integrity of Mr. McConnell, the  
 4 chief financial officer of AHERF --

5 A. No.

6 Q. -- while you were a member of the board?

7 A. No, I would say no to that.

8 Q. Did you ever --

9 A. There was never any question in the whole  
 10 organization about who was the boss, and  
 11 because of Sheriff's work habits, working, you  
 12 know, all day and all night sometimes, he got  
 13 down into detail levels that sometimes a CEO  
 14 doesn't do. That's good in some ways but also  
 15 has some disadvantages in, you know, people not  
 16 feeling they are doing a final work product,  
 17 that somebody else is looking at them all the  
 18 time.

19 But he was remarkably efficient and  
 20 remarkably knowledgeable and remarkably  
 21 diligent. He was an impressive -- I don't know  
 22 that I've ever seen anybody who had a grasp of  
 23 all the -- what was going on in that company,  
 24 in that institution. I've never seen anybody  
 25 with that kind of a grasp.

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1 Q. Did you ever share your concerns about his  
 2 ability to always have an answer with anyone  
 3 else when --

4 A. Not --

5 Q. -- they first surfaced?

6 A. -- not while I was still on the board, no.

7 Q. Did you do it at some time?

8 A. It was just a, you know, an intuitive feeling,  
 9 and he may have been absolutely correct in  
 10 every one of those occasions. He did have an  
 11 answer. I mean, if so, he's the only person I  
 12 ever saw who was like that.

13 Q. Did you ever share those concerns after you  
 14 left the board with anyone else?

15 A. Maybe in a conversation like this with somebody  
 16 who was -- had been on the board and  
 17 couldn't -- might have been with, say, a Doug  
 18 Danforth who I know and see socially, and we  
 19 would both talk about -- we would talk about  
 20 those things. I might very well have said  
 21 that.

22 Q. In a casual social conversation?

23 A. Yeah, after, you know, the whole thing had hit  
 24 the fan and it was no longer in the hands of a  
 25 board or anything, it was long --

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1 Q. This would have been after the bankruptcy?  
 2 A. Yeah, right.  
 3 Q. Did you --  
 4 A. Before that, anybody who was on the board, if  
 5 I, you know, I think mentioned it, would ask  
 6 somebody something, they wouldn't discuss it,  
 7 socially, again, socially for me, but it wasn't  
 8 socially for them.  
 9 Q. I think you may have answered this at least  
 10 indirectly in response to one of  
 11 Mr. McDonough's questions, but forgive me if  
 12 that's the case.

13 Before you left the board, did you  
 14 ever have -- or the audit committee, did you  
 15 ever have a question about the accuracy of the  
 16 audited financial statements that had been  
 17 presented to you as --

18 A. No.

19 Q. -- a member of the board?

20 A. I never did. I was always impressed with the  
 21 quality of the financial statements.

22 I tell you one difference I had with  
 23 Sherif, I saw it again here this morning. When  
 24 they developed their mission statement I guess  
 25 it was, it had a one-line mission statement

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1 that was for education, teaching and solving  
 2 health problems, people's health problems,  
 3 something like that. I tell you, you got this  
 4 backwards. This hospital is supposed to be  
 5 solving -- taking care of people and helping  
 6 them, and the teaching and that supplement  
 7 that. So I says you ought to turn it around  
 8 and then put that in the first place.

9 And he wouldn't agree with that, and  
 10 he got some support out of some other people,  
 11 but I thought they were putting the cart before  
 12 the horse. That was the only thing, and he  
 13 didn't like the fact that I questioned him I  
 14 don't think. That was the only time we ever  
 15 exchanged any words that were other than  
 16 pleasant.

17 Q. You were shown today, Mr. Thomas, some board  
 18 packages or minutes from the AIHG board, the  
 19 Allegheny Integrated Health Group --

20 A. Yeah.

21 Q. -- board?

22 A. Yeah.

23 Q. You didn't attend those meetings, did you?

24 A. No. I was never a part of that.

25 Q. Had you ever seen those materials before today?

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1 A. I don't believe so. I wouldn't have seen the  
 2 minutes I don't think because they would report  
 3 in sort of summary form at the board meetings,  
 4 but they didn't distribute all the committee  
 5 meetings to everybody on the board.

6 Q. And you also testified a few times about  
 7 objections that were or were not raised by  
 8 board members with respect to certain pieces of  
 9 Mr. Abdelhak's business strategy. Do you  
 10 recall that testimony?

11 A. The only ones I remember is that I heard, not  
 12 directly, but I heard that some of the doctors  
 13 didn't like the idea of getting a bunch of  
 14 Philadelphia hospitals and were concerned maybe  
 15 money might go from Pittsburgh to Philadelphia.  
 16 Now, I never heard a doctor say that at a board  
 17 meeting, and they were -- again, some  
 18 representatives of this medical staff were in  
 19 every board meeting, but I heard grumbings,  
 20 you know.

21 Q. Do you recall anybody in particular who  
 22 rumbled?

23 A. No. It could have been any one of about the  
 24 six doctors that I see off the Allegheny board  
 25 staff. I got a periodontologist, they cost

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1 more than a periodontist, and they put an o-l-o  
 2 in there and the price goes up. I got a  
 3 dermatologist. I got a urologist. I got a  
 4 cardiologist. I got a bone guy. I don't know  
 5 what you call them, ortho something or other,  
 6 and there's one more. There's seven on my list  
 7 of telephone numbers. It could have been one  
 8 of them might have said something.

9 Q. But you don't remember with specificity today?

10 A. No.

11 Q. Okay. Let me ask you this: Do you -- you  
 12 acknowledged I think in your testimony earlier  
 13 today that you missed some board meetings and  
 14 that you missed more board meetings after you  
 15 retired from US Steel; is that right?

16 A. Right, that's right.

17 Q. If it wasn't --

18 A. That ultimately is why I tendered my  
 19 resignation. I didn't feel comfortable not  
 20 going to the board meeting.

21 Q. And when you answered questions today, you  
 22 didn't mean to speak for those who might have  
 23 been in attendance at a meeting when you  
 24 weren't there and voiced an objection; is that  
 25 accurate?



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MR. McDONOUGH: Object to form.

A. Say that again?

Q. Let me try it again.

For the meetings that you did not attend --

A. Yeah.

Q. -- you couldn't really know whether a present member had an objection or a concern about a hospital acquisition or a physician practice acquisition --

A. Oh, that's right. Yeah, I wouldn't know that.

Q. -- or a risk management contract --

A. I didn't go around and ask everybody did you object to this or anything like that.

Q. So there may have been objections or concerns that you didn't hear; is that right?

A. That could -- that could very well be.

Q. Let me ask you things about what I don't think you ultimately heard, and that is communications from Coopers & Lybrand on a couple of topics.

Would you, when you were a member of the committee, the audit committee or the AHERF board or the AGH board for that matter, would you have expected Coopers & Lybrand to bring to

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they given access, that sort of thing, they would say yes, we have no problem.

Q. Coopers, Coopers & Lybrand would say that?

A. Yeah, would say that we have complete access, there's nothing that we can't see and we are getting very good cooperation out of the financial staff.

Q. Would you expect -- have expected Coopers & Lybrand to bring to you concerns that they held about the integrity of financial management, Mr. McConnell, Mr. Abdelhak or others, if they had such concerns?

A. Yes, pursuant, you know, to the procedure I mentioned before of telling them if you -- if there's anything you want to discuss, you can come to me or to the committee in executive session. We invite that from you. You have total access. You don't have to go through the chief financial officer. You don't have to go through anybody else. I did that in US Steel, and I did that with every audit committee I chaired. I chaired some other audit committees too.

Q. And I take it your answer's going to be the same but --

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your attention material misstatements in the financial statements that they were presented for audit that management would not correct?

MR. McDONOUGH: Object to form.

A. I think, yes.

Q. That would be part of their duties there?

A. Yes, the principal part.

Q. Would you expect Coopers & Lybrand as well to bring to your attention intentional misstatements in the financial statements that they might have uncovered?

A. Even more so.

Q. Would you have expected Coopers & Lybrand to bring to your attention concerns they had regarding the competence of financial management?

A. In general, yes. I wouldn't expect them to run down a list of people and that sort of thing.

Q. I understand. Senior, senior financial management, Mr. McConnell --

A. Yeah.

Q. -- Mr. Abdelhak?

A. Yeah, and they would remark on that just about every meeting. They would -- when I would ask, you know, how they were being treated, were

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A. You are going to get tired of hearing it.

Q. I take it your answer's going to be the same, but you tell me, if Coopers & Lybrand had uncovered what they thought was fraud on the part of financial management, you would have expected to hear that from them as well?

A. Yes.

Q. If Coopers & Lybrand had told you that the fiscal year 1996 or 1997 financial statements that they were presented for audit were materially misstated and that C & L was, therefore, going to issue an adverse opinion on those statements, would that have caused you concern?

MR. McDONOUGH: Object to form, hypothetical.

A. Yes.

Q. And why is that?

A. Well, you want to be a part of anything, particularly in the role like the chairman of the audit committee or even on the audit committee where you hear something like that and are concerned.

Q. And there are things you can do if you hear something like that; is that right?

32 (Pages 122 to 125)

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- 1 A. You can start an investigation, yeah.  
 2 Q. You can start an investigation?  
 3 A. Pardon me?  
 4 Q. You said you can start an investigation?  
 5 A. I would -- you would try to get an  
 6 investigation underway as to whether what they  
 7 told you was correct or not.  
 8 Q. And you could have some other options as well?  
 9 A. Not until you completed the investigation.  
 10 That would be the first step.  
 11 Q. You could instruct your auditors to expand the  
 12 scope of their audit work for one thing?  
 13 A. Yeah, but if they had already found  
 14 something -- well, you mean to pursue that.  
 15 Q. To do more work.  
 16 A. Oh, yeah, sure, yeah.  
 17 Q. Do additional procedures, for instance?  
 18 A. Yeah.  
 19 Q. You could engage other consultants if you  
 20 thought it appropriate?  
 21 A. You could, yeah.  
 22 Q. And you could ultimately evaluate the  
 23 competence and integrity of financial  
 24 management yourself based on what you learned?  
 25 A. That's right.

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- 1 Q. And if you weren't satisfied with their  
 2 competence or integrity, what options would you  
 3 have?  
 4 A. You'd talk to the chief executive officer and  
 5 expect that if there was substantiation for  
 6 what you were telling him, that he would take  
 7 some action and maybe discharge the person or  
 8 give them some kind of a punishment of some  
 9 sort, like a lack of a bonus or something like  
 10 that.  
 11 Q. And if -- if what you learned involved in a  
 12 negative way the chief executive officer  
 13 himself, you had options as well?  
 14 A. Go to the chairman of the board.  
 15 Q. And the chairman of the board with the board  
 16 could do what?  
 17 A. He would or should, if there was  
 18 substantiation, again, for improper actions of  
 19 some kind, run his own investigation, and  
 20 presumably if he found something wrong, he  
 21 would take action and terminate the CEO; if it  
 22 weren't that serious, maybe withhold his bonus  
 23 too, something like that, make him pay for the  
 24 transgression in some way.  
 25 Q. If you had learned what I suggested in my

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- 1 question, that C & L was going to issue an  
 2 adverse opinion on the financials, with the  
 3 options you just discussed, you would have  
 4 followed those options as they made sense?  
 5 A. If they had told me that?  
 6 Q. Yes.  
 7 A. Yeah. I would think I'd have no choice.  
 8 Q. Would you -- strike that.  
 9 If Coopers & Lybrand had told you  
 10 that net income in each of fiscal year 1996 and  
 11 1997 had been overstated by \$80 million or more  
 12 by the internal accounting department in the  
 13 financial statements presented to Coopers &  
 14 Lybrand for their audit in violation of  
 15 generally accepted accounting principles, would  
 16 that have concerned you?  
 17 MR. McDONOUGH: Object to form.  
 18 A. Yeah.  
 19 Q. And you would have had the same kinds of  
 20 options available to you if that had been the  
 21 case?  
 22 A. That's right, yeah.  
 23 Q. And you would have followed them?  
 24 A. Yeah.  
 25 Q. If Coopers & Lybrand had told you that the

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- 1 fiscal year 1996 or 1997 financial statements  
 2 presented for their audit had been  
 3 intentionally misstated by management, would  
 4 that have concerned you as well?  
 5 A. That would have concerned me.  
 6 Q. And you would have had the same options that we  
 7 discussed?  
 8 A. Right.  
 9 Q. And you would have followed them?  
 10 A. Yeah.  
 11 Q. If Coopers & Lybrand had told you that the  
 12 fiscal year 1996 or 1997 financial statements  
 13 presented for their audit were the product of  
 14 fraud on the part of financial management or  
 15 suspected fraud on the part of financial  
 16 management, would that have concerned you?  
 17 A. It would have.  
 18 Q. And would you have had the same options  
 19 available to you?  
 20 A. I would think so.  
 21 Q. And would you have followed them?  
 22 A. Yeah.  
 23 Q. Were any of those communications made to you?  
 24 A. No.  
 25 MR. McDONOUGH: Well, I'm going to

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1 object to form to the whole line of questions  
2 as they assume facts not in evidence and are  
3 merely stating hypotheticals with no  
4 foundation.

5 Q. Mr. Thomas, you've been a member of a number of  
6 audit committees, we discussed that earlier?

7 A. Yeah.

8 Q. Have auditors, independent, outside auditors in  
9 any of the audit committee meetings that you've  
10 attended for organizations other than Allegheny  
11 General or AHERF come to the audit committee  
12 with any suspicions of fraud or inappropriate  
13 comment on the part of financial management in  
14 your experience?

15 A. I can't remember any.

16 Q. Do you recall that any outside auditors coming  
17 to a committee of which you were a member  
18 outside of your AHERF work with a report of  
19 suspected incompetence or insufficient  
20 competence on the part of financial management?

21 A. I can't remember any.

22 Q. Do you ever recall discharging auditors in  
23 other audit committee work?

24 A. No. Discharging them?

25 Q. Yes.

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1 A. No. That's a recent phenomenon. Didn't use to  
2 do that.

3 Q. Mr. Thomas, you've been given a number of very  
4 thick documents today?

5 A. That's right.

6 Q. And we've all been sitting here, and it has not  
7 been possible for you to review every page of  
8 the thick documents; that accurate?

9 A. That's correct. Fast reader but not that fast.

10 Q. Neither am I. Do you recall as you sit here  
11 today whether you were at the board meeting at  
12 which The Graduate Hospital's acquisition was  
13 discussed?

14 A. I don't believe so.

15 Q. And any objections that might have been raised  
16 at that meeting, you wouldn't have been there  
17 to hear; is that fair to say?

18 A. That's right. I think I would remember if I  
19 had been.

20 Q. Did you ever learn during your service on the  
21 board or the audit committee at AGH or AHERF  
22 about Coopers & Lybrand's involvement in a  
23 lawsuit regarding the PharMor bankruptcy?

24 A. I remember the PharMor bankruptcy, but I can't  
25 say that I remember what accounting firm was

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1 involved.

2 Q. Did you ever learn of a lawsuit against Coopers  
3 & Lybrand or ever -- or any of its partners or  
4 employees that arose from that bankruptcy?

5 A. If I did, I've forgotten it.

6 MR. JONES: I don't have anything  
7 further.

8 ----  
9 RE-EXAMINATION  
10 ----

11 BY MR. McDONOUGH:

12 Q. Mr. Thomas, a few follow-up questions. I think  
13 we established previously that there were some  
14 meetings of the audit committee for the board  
15 of trustees of AHERF which you did not attend;  
16 correct?

17 A. Yeah, in the later years quite a few.

18 Q. You did, however, am I correct, get the minutes  
19 of every meeting --

20 A. Oh, yeah.

21 Q. -- the ones you attended and the ones you  
22 didn't attend?

23 A. That was part of the advance material.

24 Q. And would it be fair to say, Mr. Thomas, that  
25 you also had opportunities to converse with

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1 your colleagues who are also directors --

2 A. That's right.

3 Q. -- because of your other business associations  
4 and social associations?

5 A. Right.

6 Q. Now --

7 A. Yeah, I knew pretty much relatively intimately  
8 everybody on the board from United Way or  
9 company associations or something.

10 Q. Now, all of my questions, Mr. Thomas, that I  
11 addressed to you about did you ever hear any  
12 trustee raise objections or say this shouldn't  
13 be done or express opposition to Mr. Abdelhak's  
14 various expansion efforts, I intended those  
15 questions -- and I think so did you, but just  
16 to be precise -- I intended those questions to  
17 cover any and all conversations, whether they  
18 occurred in meetings which you attended,  
19 whether they were reported in minutes of  
20 meetings which you attended or did not attend,  
21 which covered private conversations or social  
22 conversations, taking all of those situations  
23 into account, does it remain true, Mr. Thomas,  
24 as you've testified, that you don't recall  
25 trustees opposing the various expansion efforts

34 (Pages 130 to 133)



W. BRUCE THOMAS

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1 COMMONWEALTH OF PENNSYLVANIA ) E R R A T A  
 2 COUNTY OF ALLEGHENY ) S H E E T

3 I, W. Bruce Thomas, have read the foregoing  
 4 pages of my deposition given on Tuesday, September  
 5 16, 2003, and wish to make the following, if any,  
 6 amendments, additions, deletions or corrections:  
 7 Pg. No. Line No. Change and reason for change:  
 8  
 9  
 10  
 11  
 12  
 13  
 14  
 15  
 16  
 17  
 18  
 19

20 In all other respects, the transcript is true and  
 21 correct.

22 \_\_\_\_\_  
 23 W. BRUCE THOMAS

24 Subscribed and sworn to before me this  
 25 \_\_\_\_\_ day of \_\_\_\_\_, 2003.

\_\_\_\_\_  
 Notary Public

AKF Reference No. HW77259

Page 155

1 AKF REPORTERS, INC.  
 2 AKF Building  
 3 436 Boulevard of the Allies  
 4 Pittsburgh, PA 15219  
 5 (412) 261-2323

September 19, 2003

TO: W. Bruce Thomas  
 6 Route 4, Blackburn Road  
 7 Sewickley, PA 15143  
 8 412-741-8591

9 RE: DEPOSITION OF W. BRUCE THOMAS  
 10 NOTICE OF NON-WAIVER OF SIGNATURE  
 11 This is your completed deposition transcript  
 12 which you requested to read.

13 All corrections, if any, are to be noted on the  
 14 preceding page titled Errata Sheet. If there are no  
 15 corrections, write "No Corrections" in the body of  
 16 that page. You must then sign the Errata Sheet and  
 17 have it notarized. If it is inconvenient for you to  
 18 appear at our offices to have it notarized, you may  
 19 have it notarized by any Notary Public.

20 After it has been signed and notarized, send  
 21 the entire transcript back to me so it may be  
 22 distributed to all counsel who ordered a transcript.

23 You must read and sign your transcript within  
 24 thirty (30) days of your receipt of this Notice.

25 Heidi H. Willis, RPR, CRR  
 Court Reporter  
 AKF Reporters, Inc.

40 (Pages 154 to 155)

**Tillett Dep.**

J. William Tillett, CPA

Page 1

UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF  
UNSECURED CREDITORS OF  
ALLEGHENY HEALTH, EDUCATION  
& RESEARCH FOUNDATION

Plaintiff,

vs.

Civil Action

PRICEWATERHOUSECOOPERS,  
LLP,

No. 00-684

Defendant.

- - - - -

Videotaped Deposition of JOSEPH W.  
TILLET, JR., called for examination under the  
Applicable Rules of Federal Civil Procedure,  
taken before me, Michele E. Eddy, a Registered  
Professional Reporter and Notary Public in and  
for the State of Ohio, pursuant to notice and  
stipulations of counsel, at the offices of  
Cravath, Swaine & Moore, 825 Eighth Street,  
Worldwide Plaza, New York, New York, on  
Wednesday, the 2nd day of March, 2005, at 9:00  
a.m.

- - - - -

J. William Tillett, CPA

<p style="text-align: right;">Page 182</p> <p>1 A. No.</p> <p>2 Q. Was Mr. Panucci inexperienced for</p> <p>3 the work he undertook?</p> <p>4 A. He was a younger staff accountant,</p> <p>5 a very bright individual. I would probably 13:58:50</p> <p>6 feel fortunate to have somebody like that on my</p> <p>7 engagements. I think he, I don't recall, I</p> <p>8 think this is from depositions, but like the</p> <p>9 highest grade on the CPA exam and that kind of</p> <p>10 thing. 13:59:06</p> <p>11 Q. Did you consider him to be</p> <p>12 inexperienced, though, is my question.</p> <p>13 A. He had -- I wouldn't say</p> <p>14 inexperienced. He was a staff level person and</p> <p>15 obviously he would have much less experience 13:59:17</p> <p>16 than Miss Frazier or Mr. Kirstein or</p> <p>17 Mr. Buettner, and he would have the same level</p> <p>18 of experience the other staff accountants would</p> <p>19 have.</p> <p>20 Q. Did you believe Mr. Kirstein and 13:59:29</p> <p>21 Miss Frazier had appropriate experience for the</p> <p>22 staffing roles they filled?</p> <p>23 A. Yes, I think I just testified to</p> <p>24 that.</p> <p>25 Q. Did you explore Mr. Kirstein or 13:59:40</p>	<p style="text-align: right;">Page 184</p> <p>1 pretty much by definition I can safely say I</p> <p>2 didn't agree with any of his opinions.</p> <p>3 Q. You mentioned that Mr. Buettner had</p> <p>4 some experience with the client?</p> <p>5 A. Yes, sir. 14:01:17</p> <p>6 Q. Do you know today how long that</p> <p>7 experience ran?</p> <p>8 A. Several years. I don't have a -- I</p> <p>9 don't remember the exact number of years.</p> <p>10 Q. Is experience with a client always 14:01:26</p> <p>11 a benefit to an auditor?</p> <p>12 A. There are certainly benefits.</p> <p>13 Q. Is it always a benefit?</p> <p>14 A. In some people's mind, maybe not.</p> <p>15 Others usually it is. Maybe it's mostly good, 14:01:38</p> <p>16 a little bad, you know. People have opinions</p> <p>17 on that.</p> <p>18 Q. Do you have an opinion on it?</p> <p>19 A. Yes, I do.</p> <p>20 Q. What is that? 14:01:48</p> <p>21 A. I think experience with a client is</p> <p>22 very good.</p> <p>23 Q. What are the opinions -- it's fair</p> <p>24 to say that there has been some public debate</p> <p>25 about whether long-time experience or long-term 14:01:59</p>
<p style="text-align: right;">Page 183</p> <p>1 Miss Frazier's background other than by reading</p> <p>2 their transcripts?</p> <p>3 A. The transcripts of their</p> <p>4 depositions?</p> <p>5 Q. Yes, in either this matter or the 13:59:55</p> <p>6 SEC matter.</p> <p>7 A. When you say explore, what -- can</p> <p>8 you help me --</p> <p>9 Q. Did you ask questions of anyone,</p> <p>10 undertake any other independent work to try to 14:00:07</p> <p>11 arrive at their experience base with earlier</p> <p>12 clients?</p> <p>13 A. I may have discussed with</p> <p>14 Mr. Crouse and Mr. Carlson his experience as I</p> <p>15 -- my understanding of his experience as a 14:00:33</p> <p>16 result of reading the transcripts of his</p> <p>17 deposition to see if they knew of anything else</p> <p>18 or that -- I don't recall any specific</p> <p>19 conversations, but that could have occurred.</p> <p>20 Q. Do you recall agreeing with any of 14:00:47</p> <p>21 the opinions expressed by Mr. Wallace in his</p> <p>22 rebuttal report?</p> <p>23 MR. RYAN: Objection.</p> <p>24 A. I don't recall. By the nature of</p> <p>25 his report, it was just a rebuttal of mine, so 14:01:02</p>	<p style="text-align: right;">Page 185</p> <p>1 experience is beneficial, is that fair to say?</p> <p>2 A. That is very fair to say.</p> <p>3 Q. Reported in the media and other</p> <p>4 places?</p> <p>5 A. Yes, sir. 14:02:07</p> <p>6 Q. And the criticism, in summary form,</p> <p>7 has been that long-time experience with the</p> <p>8 same audit client can impair one's</p> <p>9 independence; is that an accurate statement?</p> <p>10 A. I have heard that. 14:02:20</p> <p>11 Q. You don't agree with that?</p> <p>12 A. I don't disagree that it might</p> <p>13 occur. It's been my experience in 36 years</p> <p>14 that I have never observed an impairment of</p> <p>15 independence as a result of the partner serving 14:02:33</p> <p>16 the account for a long period of years.</p> <p>17 Q. Have you ever observed an</p> <p>18 impairment of independence as a result of the</p> <p>19 significance of the revenue stream generated by</p> <p>20 the client for a given partner? 14:02:49</p> <p>21 A. I've heard those allegations or</p> <p>22 allegations of that.</p> <p>23 Q. Have you ever observed it yourself?</p> <p>24 A. No.</p> <p>25 Q. I just want to ask you to flip to 14:02:58</p>

47 (Pages 182 to 185)



J. William Tillett, CPA

<p style="text-align: right;">Page 186</p> <p>1 page 11 of your report. Towards the bottom of  2 the page, in the final paragraph that appears  3 there, you write, "The information contained in  4 working papers constitutes the principal record  5 of the work that the auditor has done and the 14:03:38  6 conclusions that he has reached concerning  7 significant matters."  8 Is that right?  9 A. That's right.  10 Q. You believe that to be true? 14:03:47  11 A. Yes.  12 Q. Was the amount of the 17.5 million  13 dollar adjustment to the allowance for doubtful  14 accounts at DVOG in fiscal year 1996 a  15 significant matter? 14:04:02  16 A. Was the amount?  17 MR. RYAN: Objection.  18 Q. Yes.  19 A. I haven't formed an opinion on  20 that. 14:04:12  21 Q. Have you formed an opinion about  22 whether the audit team's acceptance of the  23 amount should have been reflected in the work  24 papers for the '96 audit of the DVOG hospitals,  25 Delaware Valley Obligated Group hospitals? 14:04:27</p>	<p style="text-align: right;">Page 188</p> <p>1 the '96 audit of the Delaware Valley Obligated  2 Group hospitals any mention of the clients or,  3 rather, C&amp;L's 15 to 20 million dollar range for  4 the suitable amount of an adjustment to the  5 allowance for doubtful accounts as testified to 14:05:33  6 by Mr. Buettner?  7 A. I don't see that number or range  8 documented in the work papers.  9 Q. Would you expect, consistent with  10 your statement on page 11 of your report, that 14:05:43  11 that range should have been documented in the  12 work papers?  13 A. Not necessarily.  14 MR. RYAN: Objection.  15 Q. You don't have an opinion one way 14:05:49  16 or the other?  17 MR. RYAN: Objection.  18 A. I would not be surprised to see it.  19 I would not be surprised not to see it.  20 Q. Did you when, in your experience, 14:05:59  21 counsel for an adjustment to the allowance of  22 doubtful accounts at a not-for-profit hospital  23 reflect the suitable range or the acceptable  24 range for which you had counseled in your work  25 papers? 14:06:16</p>
<p style="text-align: right;">Page 187</p> <p>1 MR. RYAN: Objection.  2 A. That the amount?  3 Q. Should have been somewhere  4 reflected in the work papers and the C&amp;L's team  5 acceptance of that amount. 14:04:38  6 MR. RYAN: Same objection.  7 A. I think it was reflected.  8 Q. How do you come to that conclusion?  9 A. Through review of the work papers.  10 Q. Do you recall a work paper in which 14:04:47  11 anyone at C&amp;L said 17.5 million dollars will be  12 the adjustment and we approve so, or words to  13 that effect?  14 MR. RYAN: Objection.  15 A. No, I don't -- I don't think that 14:04:56  16 was stated as such in the working papers.  17 Q. Then what do you refer to in the  18 working papers?  19 A. The adjustment itself.  20 Q. The entries? 14:05:07  21 A. The entries itself.  22 Q. The journal entries?  23 A. The journal entries, right, that  24 are summarized in the C&amp;L work papers.  25 Q. Do you see in the work papers for 14:05:15</p>	<p style="text-align: right;">Page 189</p> <p>1 THE WITNESS: Can you read that  2 back?  3 (Record read.)  4 A. I think I understand that.  5 The audit process -- it's been my 14:06:45  6 experience that the audit process is just that,  7 a process. And the -- through the deposition  8 testimony I find both from AHERF individuals  9 and from C&amp;L individuals to be quite  10 consistent. 14:07:09  11 What they are describing in that  12 process I find to be very common in a very  13 usual or normal process that would be  14 occurring.  15 Often in my career -- I hope this 14:07:20  16 is responsive -- we would form a preliminary  17 opinion that an allowance for doubtful account  18 should be increased and discuss it with clients  19 in a very similar fashion as Mr. Buettner and  20 Mr. Cancelmi I believe described whereby the 14:07:48  21 auditors say we think you should increase the  22 allowance. The client may say, well, how much  23 do you think. The auditor may say 15, 20  24 million dollars might be the number we would  25 feel better with, and then the client comes 14:08:03</p>

48 (Pages 186 to 189)

J. William Tillett, CPA

<p style="text-align: right;">Page 190</p> <p>1 forth and makes an adjustment.</p> <p>2 What's important is the adjustment</p> <p>3 is made and it's dealt with. If it had not</p> <p>4 been dealt with, I think Mr. Buettner would</p> <p>5 have posted it to a SUD along with some of the 14:08:23</p> <p>6 other items involved in the journal entries and</p> <p>7 had to, at that time, would have had to make a</p> <p>8 determination whether the '96 SUD was -- the</p> <p>9 items on the SUD, either as individual items or</p> <p>10 in the aggregate, had a material impact on the 14:08:44</p> <p>11 financial statements and would have had to</p> <p>12 complete that process.</p> <p>13 Under the facts, as I understand</p> <p>14 them, where the adjustment was made, the 17.5</p> <p>15 never got posted to the SUD and, in fact, items 14:09:00</p> <p>16 that were on the SUD already, the preliminary</p> <p>17 SUD got taken off the SUD. So I think in his</p> <p>18 words they got several things on the balance</p> <p>19 sheet cleaned up at the same time.</p> <p>20 Q. My question, however, remains, in 14:09:15</p> <p>21 your experience, when you counsel clients to</p> <p>22 adjust the allowance for doubtful accounts in</p> <p>23 an upward fashion, to increase it, did you put</p> <p>24 the amount of the proposed adjustment in your</p> <p>25 work papers, or any suitable range? 14:09:28</p>	<p style="text-align: right;">Page 192</p> <p>1 telling you the process as I gained to</p> <p>2 understand as a result of mainly from the</p> <p>3 depositions reap along with the working papers</p> <p>4 how all this happened, I find it not unusual</p> <p>5 and something that I could put myself in I 14:10:52</p> <p>6 think this has happened this way to me before.</p> <p>7 Q. Okay.</p> <p>8 A. Whether it's a specific hospital, I</p> <p>9 wouldn't be able to recollect that.</p> <p>10 Q. Is it, in your view, the better 14:11:01</p> <p>11 practice to document a suitable range or a</p> <p>12 suitable amount --</p> <p>13 MR. RYAN: Objection.</p> <p>14 Q. -- in the work papers?</p> <p>15 A. It becomes important, particularly 14:11:07</p> <p>16 if the client doesn't make the entry because</p> <p>17 then you have to have an amount on the SUD that</p> <p>18 supports it. The fact that the adjustment is</p> <p>19 made is not concerning to me. It makes the</p> <p>20 issue of having the documentation of less -- 14:11:30</p> <p>21 much less concern.</p> <p>22 Q. My question stands. Do you believe</p> <p>23 it to be a better practice to document such a</p> <p>24 range or such an amount in the work papers?</p> <p>25 MR. RYAN: Objection. 14:11:40</p>
<p style="text-align: right;">Page 191</p> <p>1 MR. RYAN: Objection.</p> <p>2 A. I may have. It may have occurred</p> <p>3 just as I tried to describe it. It could have</p> <p>4 been a preliminary judgment or assessment and</p> <p>5 it -- the act that -- how it was proposed is, 14:09:43</p> <p>6 of course, I can understand a great importance</p> <p>7 to you right now, but at the time of the audit</p> <p>8 and in conducting an audit, who proposed it or</p> <p>9 whatever is not as relevant as at the end of</p> <p>10 the day, the allowance was a reasonable amount 14:10:05</p> <p>11 in the eyes of the auditor.</p> <p>12 Q. I don't want to dicker with you</p> <p>13 about order of importance of items, but my</p> <p>14 question is, can you think of an instance where</p> <p>15 you proposed for one of your not-for-profit 14:10:15</p> <p>16 hospital's clients that the allowance for</p> <p>17 doubtful accounts be enhanced or increased at</p> <p>18 year-end where you didn't document the amount</p> <p>19 that would be suitable to you?</p> <p>20 A. I'm sure -- 14:10:27</p> <p>21 MR. RYAN: You mean an actual</p> <p>22 client, is that what you're asking?</p> <p>23 Q. No, can you think of an instance,</p> <p>24 first?</p> <p>25 A. I'm sure there are. I'm just 14:10:33</p>	<p style="text-align: right;">Page 193</p> <p>1 A. Documentation, more is better, if I</p> <p>2 can make that general comment and particularly</p> <p>3 in situations like we have at hand here. So I</p> <p>4 guess I would give you generally speaking that</p> <p>5 would be. 14:12:02</p> <p>6 Q. That would be your view?</p> <p>7 A. Yes.</p> <p>8 Q. Is that a yes?</p> <p>9 A. Yes. I'm sorry.</p> <p>10 Q. Was the transfer of the 50 million 14:12:06</p> <p>11 dollars of reserves that we discussed earlier</p> <p>12 today from the Graduate hospitals or reserves</p> <p>13 established in connection with the acquisition</p> <p>14 of the Graduate hospitals to the Delaware</p> <p>15 Valley Obligated Group hospitals' bad debt 14:12:23</p> <p>16 reserves a significant matter, the existence of</p> <p>17 which or the fact of which should have been</p> <p>18 recorded in the work papers?</p> <p>19 MR. RYAN: Are you talking about</p> <p>20 the 50? 14:12:33</p> <p>21 MR. JONES: The 50. The big 50.</p> <p>22 A. The 50.</p> <p>23 MR. RYAN: Objection.</p> <p>24 A. I think it was recorded in the work</p> <p>25 papers. 14:12:41</p>

49 (Pages 190 to 193)

J. William Tillett, CPA

<p style="text-align: right;">Page 194</p> <p>1 Q. Describe for me how.</p> <p>2 A. The adjustments made by the client</p> <p>3 are summarized in the C&amp;L work papers, the</p> <p>4 March 25 million and the April 25 million.</p> <p>5 Q. Did you see any work papers, 14:13:02</p> <p>6 though, that described the work done or any</p> <p>7 audit conclusion reached in connection with</p> <p>8 whether the transfer of the 50 million dollars</p> <p>9 of reserves that we've just discussed complied</p> <p>10 with GAAP? 14:13:23</p> <p>11 A. I saw Mr. Buettner's analysis where</p> <p>12 he considered the effects of the 50 million</p> <p>13 dollar transfer on the audited financial</p> <p>14 statements.</p> <p>15 Q. Did that analysis expressly refer 14:13:38</p> <p>16 to GAAP compliance or compliance with GAAP?</p> <p>17 MR. RYAN: Objection.</p> <p>18 A. I don't believe very many audit</p> <p>19 schedules specifically make those kinds of</p> <p>20 statements. 14:13:55</p> <p>21 Q. I understand that. I'm really only</p> <p>22 talking about one.</p> <p>23 Did his analysis refer to GAAP?</p> <p>24 A. No, nor did I expect it to.</p> <p>25 Q. My question, did his analysis refer 14:14:07</p>	<p style="text-align: right;">Page 196</p> <p>1 believe that it is addressing materiality.</p> <p>2 I'm not -- I am not aware if there</p> <p>3 is other work papers that specifically address</p> <p>4 the materiality of the 50 million dollar</p> <p>5 transfer. 14:15:57</p> <p>6 Q. Do you consider these handwritten</p> <p>7 notes -- they are handwritten notes, is that</p> <p>8 right?</p> <p>9 MR. RYAN: Just these two pages?</p> <p>10 A. The two pages. 14:16:03</p> <p>11 Q. The pages you just referred to.</p> <p>12 A. That's right. Many of the</p> <p>13 attachments or accompanying schedules and data</p> <p>14 are not handwritten, but you could tell it's</p> <p>15 his -- it appears to be his handwriting from 14:16:15</p> <p>16 them that he's using to work on this analysis.</p> <p>17 Q. But nonetheless, the handwritten</p> <p>18 notes to which you just referred, do you</p> <p>19 consider them to be work papers for the '97</p> <p>20 audit? 14:16:28</p> <p>21 A. Yes.</p> <p>22 Q. You understand they were maintained</p> <p>23 in separate files from the rest of the work</p> <p>24 papers?</p> <p>25 A. Yes. And specifically the auditing 14:16:32</p>
<p style="text-align: right;">Page 195</p> <p>1 to GAAP?</p> <p>2 A. I don't recall that it did.</p> <p>3 Q. I'm going to hand it to you now or</p> <p>4 at least a set of documents that included, I</p> <p>5 believe, from his deposition, and they were 14:14:15</p> <p>6 marked as Exhibit 4473 to that deposition. If</p> <p>7 you will quickly just confirm to me that the</p> <p>8 analysis by which you just referred by</p> <p>9 Mr. Buettner is included in Exhibit 4473, that</p> <p>10 would be great. 14:14:30</p> <p>11 A. Yes, sir.</p> <p>12 Q. In particular, which pages do you</p> <p>13 refer to?</p> <p>14 A. They're all -- all these are</p> <p>15 somewhat related, but I think the principal 14:14:58</p> <p>16 schedules would be CL 036438 and CL 036439.</p> <p>17 Q. Are you aware of any other work</p> <p>18 papers, to the extent these can be so</p> <p>19 considered, but any work papers, besides these</p> <p>20 pages you just referred to, that address the 14:15:27</p> <p>21 materiality of the 50 million dollars in</p> <p>22 reserve transfers?</p> <p>23 MR. RYAN: Objection.</p> <p>24 A. I think his schedule is doing more</p> <p>25 than just addressing the materiality, but I do 14:15:41</p>	<p style="text-align: right;">Page 197</p> <p>1 standards provide that that may be the case.</p> <p>2 Q. Are you aware of any independent</p> <p>3 expectation of the estimate of the allowance</p> <p>4 for doubtful accounts undertaken by C&amp;L that</p> <p>5 included a reference to the range 15 to 20 14:16:59</p> <p>6 million dollars or the amount of the adjustment</p> <p>7 17.5 million dollars at DVOG in '96?</p> <p>8 A. We're back on the 17 five?</p> <p>9 Q. Yes. We're ping-ponging. I</p> <p>10 apologize. 14:17:12</p> <p>11 A. That's okay.</p> <p>12 MR. RYAN: If I could get that read</p> <p>13 back.</p> <p>14 MR. JONES: Don't bother because</p> <p>15 I'll withdraw it and try it again. 14:17:17</p> <p>16 Q. Are you aware of any work papers</p> <p>17 that expressly purport to develop an</p> <p>18 independent or reflect an independent</p> <p>19 expectation of the estimate of the allowance</p> <p>20 for doubtful accounts at DVOG in fiscal year 14:17:33</p> <p>21 1996 that include reference to the 15 to 20</p> <p>22 million dollar range or the 17.5 million dollar</p> <p>23 actual adjustment?</p> <p>24 A. I don't believe so.</p> <p>25 Q. I'm going to represent to you that 14:17:45</p>

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**DEPOSITION ERRATA SHEET**  
**JOSEPH WILLIAM TILLET, JR.**  
**MARCH 2, 2005**

PAGE	LINE	CORRECTION	REASON
10	10	Strike "primary"	Cannot have two primary
10	11	Strike "is"	Correct grammar
11	6	"—TR, LLC ?" s/b "JWTJR, LLC"	Correct name
28	13	"control" s/b "controlled"	Correct spelling
43	6	"Coram" s/b "Quorum"	Correct name
43	16	"Coram" s/b "Quorum"	Correct name
43	22	"Coram" s/b "Quorum"	Correct name
47	13	Insert the "that" between the words "company" and "purchased"	Clarify
48	10	"Speakman" s/b "Spearman"	Correct name
73	11	"panning" s/b "playing"	Correct spelling
88	9	Strike "on"	Correct grammar
100	21	"Comb" s/b "Cone"	Correct name
100	22	"Ken Flow" s/b "KENFLO"	Correct name
100	24	"Ken Flow" s/b "KENFLO"	Correct name
101	24/25	"Grand Care" s/b Grancare"	Correct name
102	4	"Orenda" s/b "ORNDA"	Correct name
103	14	"Kusaro" s/b "Kusserow"	Correct name
104	8	"stud" s/b "stub"	Correct spelling
120	18	"HF" s/b HFMA"	Correct name
128	10	"Bobby" s/b "Javy"	Correct name
129	8	"that was" s/b "these were"	Correct grammar
170	19	"Wynett" s/b "Gwinnett"	Correct name
170	20	"Decab" s/b "DeKalb"	Correct name
174	14	Insert the word "may" prior to the word "be"	Correct grammar
192	3	"reap" s/b "read"	Correct spelling
204	7-9	"Girol" s/b "Kaliszewski" (see page 245 for correction)	Correct name
207	17	"Girol" s/b "Kaliszewski" (see page 245 for correction)	Correct name
209	11	"substantive" s/b "subsequent"	Correct spelling/word
217	12	"see" s/b "say"	Correct word
246	6	"Orenda" s/b "ORNDA"	Correct name
246	22	"Orenda" s/b "ORNDA"	Correct name
247	11	"Orenda" s/b "ORNDA"	Correct name
247	18	"Orenda" s/b "ORNDA"	Correct name
255	25	"data" s/b "dated"	Correct word
260	14	"admitted" s/b "omitted"	Correct word
274	5	"call" s/b "see"	Correct word
324	23	"an accountant's not a lawyer" s/b "I'm an	Correct word(s)



	accountant, not a lawyer"	
--	---------------------------	--

SIGNATURE: \_\_\_\_\_

A handwritten signature in black ink, consisting of a stylized 'J' followed by a horizontal line and a diagonal stroke.

DATE \_\_\_\_\_

4/12/05

**Turtz Dep.**

VOLUME II  
IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF : CIVIL ACTION  
UNSECURED CREDITORS OF :  
ALLEGHENY HEALTH, EDUCATION:  
AND RESEARCH FOUNDATION :  
:  
vs. :  
:  
PRICewaterHOUSE COOPERS, : CASE NO.  
LLP : 00-684 (W.D.Pa.)

Philadelphia, Pennsylvania  
Tuesday, August 20, 2002

Continued videotape deposition of MYLES  
GEORGE TURTZ, M.D., taken pursuant to notice, at the  
law offices of Harkins Cunningham, 2800 One Commerce  
Square, 2005 Market Street, on the above date,  
beginning at approximately 9:29 a.m., before Cynthia  
A. Whyte, Registered Professional Reporter and  
Notary Public.

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1 Myles George Turtz, M.D. - Volume II  
 2 that correct?  
 3 A. Oh, yes.  
 4 Q. From the bankruptcy court?  
 5 A. Yes. That's where the judge made some 12:12 PM  
 6 inappropriate comments in my opinion.  
 7 Q. Did you ever have occasion to read the  
 8 consolidated financial statements of AHERF?  
 9 A. You mean while I was working for them?  
 10 Q. Yes. 12:13 PM  
 11 A. I got -- the consolidated financials were  
 12 distributed widely throughout Allegheny, I mean  
 13 boxes and boxes and boxes of those annual reports.  
 14 I mean the consolidated statement would be in the  
 15 annual report, were distributed widely. I mean I 12:13 PM  
 16 even have them when I was going out when I would  
 17 make presentations to boards about would you want to  
 18 be affiliated with us or anything. I would go and  
 19 distribute them to the whole board, so I mean that  
 20 was widely distributed. 12:13 PM  
 21 Q. Did you have any involvement in the  
 22 preparation of the financial statements?  
 23 A. Zero.  
 24 Q. None at all?  
 25 A. None. 12:13 PM

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1 Myles George Turtz, M.D. - Volume II  
 2 Q. Did you ever have any contact with any of the  
 3 people from Coopers & Lybrand?  
 4 A. No. In Allegheny?  
 5 Q. That's correct. 12:13 PM  
 6 A. At United I had a lot of contact with them.  
 7 Q. Were Coopers & Lybrand the accountants for  
 8 United as well?  
 9 A. Yes, they were.  
 10 Q. What was your experience with the people from 12:14 PM  
 11 Coopers & Lybrand while you were at United?  
 12 A. Great, great, very critical. After I created  
 13 United, their first management report must have run  
 14 for 500 pages of criticisms of our systems. We  
 15 fixed them. I was pleased. 12:14 PM  
 16 Q. So you were pleased to receive that  
 17 criticism?  
 18 A. I personally as a CEO was delighted.  
 19 Q. Why?  
 20 A. Well, you know, my credentials to be the CEO 12:14 PM  
 21 of a hospital system was largely only because I had  
 22 credibility as a surgeon that I was given the job in  
 23 the first place and that I was an honest man and  
 24 with integrity so there was no foolishness, but I  
 25 had to hire people -- my main role was to hire 12:15 PM

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1 Myles George Turtz, M.D. - Volume II  
 2 people who were knowledgeable and authoritative and  
 3 professionals as chief operating officers, as chief  
 4 financial officers, as human resources and  
 5 everything, and I was always somewhat concerned that 12:15 PM  
 6 I didn't know enough to have the right systems and  
 7 oversight in place. I mean not-for-profit boards  
 8 are a joke. Everybody wants to feel good. So I  
 9 looked to the auditors. As a matter of fact, the  
 10 first auditor I had when I took over St. 12:15 PM  
 11 Christopher's Hospital for Children, I said to him,  
 12 "I look to you to tell me what's wrong," and I  
 13 forget the name of the firm, but he said, "We're not  
 14 policemen." That's what the auditor said to me.  
 15 "That is not our role. We are not policemen." 12:15 PM  
 16 I said, "I need a cop because I don't  
 17 know what I'm doing here." He said, "We are not  
 18 policemen." So I fired him and brought in Coopers &  
 19 Lybrand. Why Coopers? Because one of our board  
 20 members was a retired -- was retired from Coopers & 12:16 PM  
 21 Lybrand, a fellow named Phillip Taylor, and then  
 22 created United, and they were -- so when they  
 23 presented a critical report of systems and checks  
 24 and balances, I was delighted because I felt now I  
 25 had -- this group was taking a look and rendering 12:16 PM

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1 Myles George Turtz, M.D. - Volume II  
 2 exactly what I was looking for and I had good people  
 3 and they implemented, so I was very pleased with  
 4 them. I looked for that.  
 5 Q. You say that not-for-profit boards are a 12:16 PM  
 6 joke. What do you mean by that?  
 7 A. In terms of -- you know, you asked me before  
 8 what authority did -- these are serious people by  
 9 and large, many of them running enormous industries  
 10 or large law firms who are very successful in the 12:17 PM  
 11 main but by and large park their critical senses at  
 12 the door before they would walk into any board  
 13 meeting. They are so overwhelmed with the  
 14 complexity of it and they see themselves there as  
 15 doing a good work as opposed to running a business, 12:17 PM  
 16 and it is only when there is panic in the streets do  
 17 they bring their critical views to the board. But  
 18 until that point they pretty much defer to  
 19 management.  
 20 Now, that may be true of the few -- for 12:17 PM  
 21 for-profit boards I have served on it has also been  
 22 true, but nowhere near to the degree of  
 23 not-for-profits. They are interested in doing the  
 24 good work. What's the program? How many patients  
 25 are we taking care of? Are you opening up a kidney 12:18 PM



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1 Myles George Turtz, M.D. - Volume II  
 2 transplant unit? But in terms of can you afford to  
 3 do that or where is the dollars or how are you going  
 4 to work it, that's very complicated business.  
 5 So even these great -- and they are 12:18 PM  
 6 super people. Head of Rohm & Haas, magnificent. I  
 7 can assure you they don't run their businesses the  
 8 way -- their board the way they run -- or the way  
 9 their participate in not-for-profits. I don't mean  
 10 to demean them. I'm just saying -- I have great 12:18 PM  
 11 respect for them, but they don't see themselves as  
 12 that's why they are there.  
 13 Q. And was that your experience with the St.  
 14 Christopher's board?  
 15 A. Because I didn't know what I was doing, I 12:19 PM  
 16 used to involve the St. Christopher's board a lot  
 17 more frequently. For example -- and we were always  
 18 in trouble. So when you are in trouble -- when you  
 19 are in trouble, all the boards pay attention. They  
 20 start worrying about personal -- every board meeting 12:19 PM  
 21 you start the board meeting and I say, "Where are we  
 22 with our DNO insurance?" You know they are paying  
 23 attention. But when things are going along, they  
 24 don't know.  
 25 And so with me, because I wasn't a 12:19 PM

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1 Myles George Turtz, M.D. - Volume II  
 2 professional and because we were in trouble all the  
 3 time, I would meet with my -- the executive  
 4 committee of my board, which had the authority to  
 5 act in between meetings for stuff to be ratified 12:19 PM  
 6 subsequently at St. Chris and United, and it was not  
 7 uncommon for me to meet every week, sometimes twice  
 8 a week, and I would bring every damn issue to them.  
 9 I would say, "Here is what I want to do. Now  
 10 examine me on it." I'm very comfortable with this 12:20 PM  
 11 examination business. That's the way I ran the  
 12 company.  
 13 Q. So that's when you were still running United?  
 14 A. That's when I ran United.  
 15 Q. What about after you came back to St. 12:20 PM  
 16 Christopher's and St. Christopher's was in the AHERF  
 17 system; how did you find the board then?  
 18 A. I don't know what meetings took place outside  
 19 of the board meeting. They may have been meeting  
 20 with individual members on a regular basis. I do 12:20 PM  
 21 know that the chief executive officer of St.  
 22 Christopher's, Calvin Bland, who I hired originally,  
 23 and the chairman of the board, Ralph Brenner,  
 24 probably talked almost every day. So I mean I  
 25 wasn't privy to those conversations. 12:20 PM

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1 Myles George Turtz, M.D. - Volume II  
 2 If you ask me what took place at the  
 3 board meeting, it was a lot of form, not a heck of a  
 4 lot of substance, but there may have been a lot of  
 5 activity go on that I was not privy to, as there was 12:20 PM  
 6 when I ran it.  
 7 Q. During the time when you were employed by  
 8 AHERF, were you always acting in what you thought  
 9 were the best interests of AHERF?  
 10 A. Absolutely. 12:21 PM  
 11 Q. During that time did you ever act solely for  
 12 your own personal interests?  
 13 A. No.  
 14 Q. Did you ever use AHERF money for your own  
 15 personal benefit? 12:21 PM  
 16 A. Never.  
 17 Q. Are you aware of any AHERF executive who  
 18 acted solely in his or her own personal interest in  
 19 the course of their employment by AHERF?  
 20 A. No. 12:21 PM  
 21 MR. TORBORG: Objection to the form.  
 22 Q. The answer is no?  
 23 A. No.  
 24 Q. Are you aware of any AHERF executive who ever  
 25 embezzled money from AHERF? 12:21 PM

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1 Myles George Turtz, M.D. - Volume II  
 2 A. No.  
 3 Q. Are you aware of any AHERF executive who ever  
 4 used AHERF money for his or her own personal  
 5 benefit? 12:21 PM  
 6 MR. TORBORG: Object to form.  
 7 A. No.  
 8 MR. BARRON: Dr. Turtz, that's all the  
 9 questions I have.  
 10 THE WITNESS: Sounds good to me. 12:21 PM  
 11 If you promise me a couple of hours and  
 12 we are out of here.  
 13 MR. TORBORG: I think we will get done  
 14 today --  
 15 THE WITNESS: Good.  
 16 MR. TORBORG: -- depending on what Frank  
 17 has on reexamination. Is now a good time to take a  
 18 lunch break do you think?  
 19 VIDEO TECHNICIAN: We are now going off  
 20 the video record. The time 12:22 and 30 seconds. 12:22 PM  
 21 (Luncheon recess.)  
 22 (Exhibit 590 was marked for  
 23 identification.)  
 24 VIDEO TECHNICIAN: Back on. The time  
 25 1:08. 01:08 PM

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1 Myles George Turtz, M.D. - Volume II  
2 strategy and performance until not too long before  
3 we went under was considered visionary by all our  
4 competitors, who began to do whatever he did.  
5 Q. My question was, do you think that the 02:54 PM  
6 perception of the fact that his strategy was working  
7 led to additional acquisitions such as Graduate and  
8 additional physician practices?  
9 A. It depends on who you ask. If you ask me, I  
10 would have said no. 02:54 PM  
11 Q. What do you mean?  
12 A. I mean I didn't think it was a good  
13 acquisition. If you ask maybe many other people,  
14 they would say yes. At the time the wisdom, the  
15 unexplored thinking, was that bigger is better. It 02:54 PM  
16 was just not an examined thing. It was running the  
17 organizations, not necessarily Allegheny, all of  
18 them, by cliché, slow.  
19 Q. I'm going to hand you a document that has  
20 previously been marked as Exhibit 473. I will find 02:55 PM  
21 the specific page I want to point you to and I will  
22 give you the document.  
23 Looking at Page 4 of that document, Mr.  
24 Barron was asking you about that document and I  
25 think pointed out the fact that the United hospitals 02:56 PM

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1 Myles George Turtz, M.D. - Volume II  
2 MR. BARRON: Where are you?  
3 MR. TORBORG: Bottom of Page 50, Line  
4 25.  
5 MR. BARRON: Hold on for a second. 02:58 PM  
6 MR. TORBORG: Sure.  
7 MR. BARRON: Okay.  
8 Q. The question was "What impact did not being  
9 in compliance with the covenants have on United?"  
10 And I believe that was speaking about debt 02:58 PM  
11 covenants. Your answer was "Well, we were going  
12 under."  
13 A. Right, unless we could get relief from them.  
14 Q. Why does a violation of debt covenants mean  
15 you are going under? 02:58 PM  
16 A. Well, the assumption is -- the projection is  
17 when you first do the transaction -- and all of  
18 these are done through the Philadelphia hospital  
19 authority -- are that you are going to have  
20 sufficient revenues to cover your debt service. 02:58 PM  
21 Those are the projections. So they establish  
22 certain criteria to protect the bondholders. If you  
23 start to default, if you don't make your mortgage  
24 payments, the situation is the same with a house  
25 when you are not making your mortgage payment. So 02:59 PM

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1 Myles George Turtz, M.D. - Volume II  
2 had lost 4-1/2 million dollars in fiscal 1989 and  
3 7-1/2 million dollars in fiscal 1990?  
4 A. Just the reverse.  
5 Q. I'm sorry. 02:56 PM  
6 A. It was 4-1/2 plus in 1989 and 7-1/2 plus in  
7 1990.  
8 Q. I think that you had stated that the United  
9 hospitals at the time they were acquired by AHERF  
10 were in terrible shape? 02:57 PM  
11 A. Right.  
12 Q. Right? When you say they were in terrible  
13 shape, was that because of the losses that are  
14 reflected there or some other thing or a combination  
15 of things? 02:57 PM  
16 A. Unrelenting losses. As a matter of fact, by  
17 19 -- this is June 3, 1990. I might have been  
18 dancing out of compliance on my debt covenants at  
19 that time.  
20 Q. I think we talked about that earlier, and let 02:57 PM  
21 me point you to -- we will go to Page 50.  
22 A. Page?  
23 Q. I'm just going to read some previous  
24 testimony.  
25 A. Sure. 02:58 PM

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1 Myles George Turtz, M.D. - Volume II  
2 certain criteria said you had to have enough to  
3 cover this, and we were now not having enough.  
4 Q. But what about the actual violation of a  
5 financial covenant? 02:59 PM  
6 A. I can't speak with authority, but as I recall  
7 at the time I could. It gives -- as if you work  
8 this thing -- it was I think a lease in a sublease.  
9 It wasn't really ownership. I don't know if I'm --  
10 if memory will be sufficient to answer the question. 02:59 PM  
11 PM  
12 If I could, I would.  
13 Q. Do you have a general notion of what a  
14 violation of debt covenants typically does to an  
15 organization like United hospitals?  
16 A. All kind of things. Whoever has the power by 03:00 PM  
17 the documents to replace the board could replace  
18 management, could sell off assets. That's my  
19 understanding; or could force you into declaring  
20 some kind of bankruptcy.  
21 Q. It could lead to significant changes? 03:00 PM  
22 A. That's a good sentence, significant changes.  
23 I could lose my job.  
24 Q. Do you recall whether at the time United  
25 started suffering financial difficulties seeing an  
26 increased participation by the board, the United 03:00 PM

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1 Myles George Turtz, M.D. - Volume II  
 2 board of trustees?  
 3 A. The United board was evidently atypical in  
 4 that they were very active all the time, maybe  
 5 somewhat more active towards the end, but as I 03:01 PM  
 6 reported in response to another question, it was not  
 7 uncommon for me when I was leading the shop there  
 8 and things were chaos, things were going down,  
 9 things were bad, for me to meet with the executive  
 10 committee twice a week. I used to get complaints 03:01 PM  
 11 from my executive committee members that they had  
 12 businesses to run. So there was a lot.  
 13 Q. You said that nonprofit boards are typically  
 14 a joke.  
 15 A. If I didn't say joke, I could have. 03:01 PM  
 16 Q. I think you said joke.  
 17 A. I don't want to demean them. Serious people.  
 18 It's just that there is no sense -- unless things  
 19 are bad, there is no sense that they have -- that  
 20 they are really interested in anything more than 03:02 PM  
 21 fostering programs within the institution as opposed  
 22 to paying a lot of attention on the numbers which  
 23 they kind of accept from management, and they have  
 24 one of two relations with the CEO. They either love  
 25 him and continue and everything is great or they 03:02 PM

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1 Myles George Turtz, M.D. - Volume II  
 2 which was a prestigious, desirable board. But the  
 3 scrutiny with the numbers? Not why most of them  
 4 were there. Even people who would scrutinize the  
 5 hell out of numbers within their own shop and were 03:04 PM  
 6 capable of doing that, typically that's not what  
 7 most boards do. That has been my experience. Maybe  
 8 it has been a distorted experience, but I don't  
 9 think so.  
 10 Q. When you were the CEO at United, who had the 03:04 PM  
 11 ultimate responsibility for governing those  
 12 hospitals?  
 13 A. The board.  
 14 Q. And why is that?  
 15 A. That's the way it is. I mean the boards -- 03:04 PM  
 16 that's the board's responsibility. Make sure  
 17 management is in place. That's my understanding.  
 18 Manager works at the pleasure of the board and the  
 19 contract the board has given him.  
 20 Q. I'm not going to have too many more documents 03:05 PM  
 21 I promise.  
 22 A. As long as you get done today, I don't care.  
 23 I'll stay here forever.  
 24 (Exhibit 593 was marked for  
 25 identification.) 03:05 PM

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1 Myles George Turtz, M.D. - Volume II  
 2 don't like him and they can him. There is no middle  
 3 ground.  
 4 Q. Other than United and what contact you had  
 5 with various boards at AHERF, what other experience 03:02 PM  
 6 do you have with working with nonprofit boards?  
 7 A. That's it.  
 8 Q. That's it?  
 9 A. Well, religious schools.  
 10 Q. Which ones? 03:02 PM  
 11 A. Bethel in Cherry Hill, New Jersey, Kelman  
 12 Academy.  
 13 Q. I think you answered this before, but I will  
 14 ask again in case you didn't. Did you attend any of  
 15 the AHERF board meetings? 03:03 PM  
 16 A. No.  
 17 Q. So you wouldn't really know if those people  
 18 took their jobs seriously?  
 19 A. You know, I guess as a result of the  
 20 language, obviously you are using the same kind of 03:03 PM  
 21 language. By and large these were serious people,  
 22 CEOs of banks, ran large corporations, some lawyers,  
 23 of good reputation. These were not flakes. It is  
 24 just that they were interested in promoting programs  
 25 and were very proud to be a member of Allegheny, 03:03 PM

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1 Myles George Turtz, M.D. - Volume II  
 2 Q. Dr. Turtz, the court reporter has handed you  
 3 a book for St. Chris dated October 28, 1997, which I  
 4 believe Mr. Barron also marked, but I think Mr.  
 5 Barron's version is a little different than mine, so 03:06 PM  
 6 I went ahead and marked this one. And what I'm  
 7 going to ask you to do, if you would, is turn to the  
 8 page Bates'd at the bottom ending in 635.  
 9 A. "Draft Unaudited Financial Statements"?  
 10 Q. Yes. 03:06 PM  
 11 A. Uh-huh.  
 12 Q. Do you see here that the St. Chris board is  
 13 getting a copy of at least unaudited financial  
 14 statements for the fiscal year 1997 in October of  
 15 1997; is that right? 03:06 PM  
 16 A. That's what it looks like.  
 17 Q. Now, to the best of your knowledge, would  
 18 board members be looking at these financial  
 19 statements?  
 20 A. They would look at them with varying degrees 03:07 PM  
 21 of scrutiny. Some don't look at them at all. Some  
 22 look at them carefully, as you would expect.  
 23 Q. Do you know if this was typical for the AHERF  
 24 boards to get copies of year-end financial  
 25 statements before they received an audited opinion? 03:07 PM

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## INDEX (CONTINUED)

## EXHIBITS

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592	Letter, 4/28/97, to Dr. Turtz from Mr. McConnell	428
593	Board Book, 10/28/97	452
594	Letter, 11/9/97, to Mr. Abdelhak from Ms. Hutchison	467
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## CERTIFICATE

I HEREBY CERTIFY that the proceedings, evidence and objections are contained fully and accurately in the stenographic notes taken by me on August 20, 2002, and that this is a true and correct transcript of same.

\_\_\_\_\_  
Cynthia A. Whyte, RPR

(The foregoing certification of this transcript does not apply to any reproduction of the same by any means, unless under the direct control and/or supervision of the certifying reporter.)

51 (Pages 482 to 483)



**Weill Dep.**